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S E C R E T SECTION 01 OF 02 TAIPEI 003288

SIPDIS

DEPT PASS TO AIT/W AND USTR
DEPT FOR EAP/TC, EAP/EP, EB/IFD/OIA AND NKWG
TREASURY FOR OASIA ZELIKOW, WISNER AND OCC AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,
SAN FRANCISCO FRB AND NEW YORK FRB

E.O. 12958: DECL: 08/08/2020

TAGS: [ECON](#) [PINR](#) [KCRM](#) [KTFN](#) [RP](#) [TW](#)

SUBJECT: INSIGHT INTO EAST ASIA MONEY LAUNDERING

Classified By: AIT DIRECTOR DOUGLAS PAAL, REASON 1.5 B/D

1. (S) Summary. A Hong Kong private investigator discussed with AIT Econ on July 14 his ongoing investigation into three unlicensed Taiwan money brokers that have been sending U.S. dollar bank and travelers' checks to his client, a Hong Kong bank. The investigator had come to Taiwan to determine if the money was of criminal origin and to persuade the unlicensed brokers to collect customer information needed to comply with U.S. banking laws. On August 2, the investigator provided AIT with a somewhat plausible explanation of the several tens of thousands of dollars in sequential, unsigned travelers' checks issued in South Korea that the Taiwan brokers regularly send to Hong Kong. The investigator is also looking into the possibility that North Korean businessmen may be seeking to change money and make large investments in Manila. End Summary.

2. (C) Hong Kong private investigator Peter Gallo of Pacific Risk Ltd. visited AIT on July 14 to discuss his investigation into three unlicensed money brokers that were sending U.S. dollar bank and travelers, check to his client, a Hong Kong bank, for currency exchange. At the time of his meeting with AIT, Gallo had not yet met with any of the three brokers, but planned to do so over the next few days. Gallo was aware that the unlicensed money brokers were operating "outside of the law" yet he hoped to find that the money was not the proceeds of criminal activity, that the brokers could be persuaded to keep the customer records required by anti-money laundering banking regulations, and that the business relationship between the brokers and his Hong Kong client could continue without violating banking regulations.

3. (C) Gallo said the total daily U.S. dollar value of the checks his client received from the three brokers was "well into six figures." Most of the checks were drawn on U.S. banks and had valuations under \$1000. However, among the travelers, checks there were often \$30-40,000 worth of sequential, unsigned checks that had been issued in South Korea. In one instance, Gallo found a sequential series of unsigned travelers, checks with a total value over \$100,000.

4. (C) Gallo said he did not suspect the bank checks of being criminal proceeds since they were for small amounts (usually from 25 to a few hundred dollars) and were drawn on a large number of different U.S. banks. Nor did he think the money was the fruit of graft or corruption in Taiwan, since the details did not seem to fit local corruption. He suspected that most of the money was coming from a triangular trade wherein small business in Taiwan obtained U.S. dollar checks through direct sales to U.S. customers (perhaps from sales over the internet), and exchanged them for Taiwan currency at the unlicensed brokers to avoid bank records, taxes and high bank exchange fees. Gallo thought another part of the triangle trade was the tens of thousands of illegal Chinese immigrants in Taiwan who lacked legal status and identification documents but wanted to repatriate money to relatives in China. These people could not deal with banks that ask for identification, so they use the unlicensed money brokers for currency exchange and transfer via Hong Kong to accounts in mainland China.

5. (C) Gallo was very surprised when AIT informed him that he was the only person in the past year to approach AIT asking how to bring unlicensed money brokers "into the fold" (how to make them comply with anti-money laundering regulations). He had assumed this would be a common concern, and while he only knew of the three unlicensed brokers that sent money to his Hong Kong client, he assumed there were hundreds of such brokers in Taiwan.

North Korean Seeks Investment Opportunities in Philippines

6. (S) Gallo also told AIT that a "confidential informant" of his in Manila called him in mid-June to discuss a North Korean businessman who wanted to exchange currency and make large investments in the Philippines.

17. (C) AIT has informed Taiwan's Ministry of Justice and Financial Supervisory Commission of the outlines of Gallo's story. They confirmed that "unlicensed money brokering" is clearly a violation of Taiwan law. They added that as far as they were aware there was no way to legalize such activities. Money exchange must be done through banks that follow required anti-money laundering procedures.

Gallo's Follow-up Report

18. (S) Gallo sent AIT/Econ a follow-up e-mail on August 2 after his interviews with the unlicensed money brokers with what he thought was a credible explanation for why large quantities of sequentially numbered, unsigned travelers' checks issued in South Korea. According to Gallo, the money brokers had explained to him that it is common practice for tour group leaders to bring cash with them to pay for the group's hotels and other expenses. Paying in cash allows them to negotiate the prices already agreed. Once the tour group arrives in Taiwan from South Korea, the tour guide will call hotels and try to get a better deal than the one holding the reservation. The tourists in the group can be palmed off with some excuse about a change in the itinerary, and the tour guide pockets the difference. This deal depends on the ability to pay cash. Travelers' checks are simply the best way to carry cash. Gallo said he would follow-up with his informant in Manila and report the results.

PAAL